BELGIUM

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Key Economic Indicators

(Billions of U.S. Dollars unless otherwise indicated)

	1996	1997	1998 1/
Income, Production and Employment:			
GDP (at current prices) 2/	268.3	242.4	247.6
Real GDP Growth (pct) 3/	1.5	2.8	2.5
GDP by Sector (pct):			
Agriculture	1.2	N/A	N/A
Construction	6.2	N/A	N/A
Energy	4.4	N/A	N/A
Industry	17.8	N/A	N/A
Services	52.6	N/A	N/A
Nontradable Services	17.7	N/A	N/A
Real Per Capita GDP (US$) 4/	26,381	23,811	24,274
Labor Force (000s)	4,284	4,283	4,282
Unemployment Rate (pct)	9.7	9.2	8.5
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	8.9	6.5	5.5
Consumer Price Inflation	2.1	1.6	1.2
Exchange Rate (BF/US$)	30.95	35.78	35.45
Balance of Payments and Trade:			
Total Exports FOB 5/	172.7	168.2	173.3
Exports to U.S. 6/	7.0	7.7	7.1
Total Imports CIF 5/	161.3	155.8	160.7
Imports from U.S. 6/	9.4	10.8	11.2
Trade Balance 5/	11.4	12.4	12.6
Balance with U.S. 6/	-2.4	-3.1	-4.1
Current Account/GDP (pct)	4.1	4.6	5.1
External Public Debt	23.6	21.9	22.3
Debt Service Payments/GDP	N/A	N/A	N/A
Fiscal Deficit/GDP (pct)	-4.1	-3.2	-2.6
Gold and Foreign Exchange Reserves	19.12	17.66	18.18
Aid from U.S.	0	0	0

Aid for All Other Sources	0	0	0

1/ 1998 figures are all estimates based on monthly data available in October.
2/ GDP at factor cost.
3/ Percentage changes calculated in local currency.
4/ At 1985 prices.
5/ Merchandise trade.
6/ Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis. 1996 figures include trade with Luxembourg under the customs union. 1997 and 1998 figures are estimates for Belgium only based on data available through October 1998.

1. General Policy Framework

Belgium has a highly developed market economy, the tenth largest among the OECD industrialized democracies. The service sector generates more than 70 percent of GDP, industry 25 percent and agriculture two percent. Belgium ranked as the tenth-largest trading country in the world in 1997, with exports and imports each equivalent to about 70 percent of GDP. Three-quarters of Belgium's trade is with other European Union (EU) members. Only five percent is with the United States. Belgium imports many basic or intermediate goods, adds value, and then exports final products. The country derives trade advantages from its central geographic location, and a highly skilled, multilingual and industrious workforce. Over the past 30 years, Belgium has enjoyed the second-highest average annual growth in productivity among OECD countries (after Japan).

Throughout the late 1970s and the 1980s, Belgium ran chronic budget deficits, leading to a rapid accumulation of public sector debt. By 1994, debt was equal to 137 percent of GDP. Because of the high Belgian savings rate, Belgium has largely financed its budget deficits from domestic savings. Foreign debt represents less than 10 percent of the total and Belgium is a net creditor on its external account.

Belgium's macroeconomic policy since 1992 has aimed at reducing the deficit below 3.0 percent of GDP and reversing the growth of the debt/GDP ratio in order to meet the criteria for participation in Economic and Monetary Union (EMU) set out in the EU's Maastricht Treaty. On May 1, 1998, Belgium became a first-tier member of the European Monetary Union. The country narrowly achieved its status as an EMU member, since its cumulative debt of 122 percent of GDP is more than twice the maximum of 60 percent set forth in the Maastricht criteria established in 1992. However, since Belgium has made consistent progress towards the 60 percent target, and it continues to post an impressive primary surplus (net government revenue minus interest on the debt) of 6 percent of GDP, no additional macroeconomic requirements were imposed by the other Euro Members. The government's 1999 budget, presented in October 1998, projects a 1.2 percent deficit and a reduction in the debt/GDP ratio to 115 percent.

Economic growth, which on an annualized basis dropped from 4.2 percent in the first quarter of 1998 to 3.5 percent in the second quarter, is estimated at around 2.5 percent for the whole of 1998. For 1999, an almost identical figure is expected. Business surveys indicate a slowdown in exports, but domestic consumption and investment are picking up, thus compensating for the reduced growth in exports. At 1.2 percent, inflation seems to be under firm control, and no inflationary pressures are apparent, since weak commodity prices keep imported inflation low. Belgium’s current account surplus of 4.7 percent of GDP is one of the highest among OECD countries.

Belgium’s unemployment situation improved slowly over the past two years. Standardized EU data put Belgium’s unemployment rate at 8.8 percent in September 1998, 1.2 percent below the EU’s average. However, strong regional differences in unemployment rates persist, with rates in Wallonia and Brussels being two to three times higher than in Flanders. A further reduction in unemployment will probably be very modest: efforts by business to neutralize high labor costs have resulted in capital-intensive investments and hence increased productivity. Although wage growth has been very modest since 1994, wage levels remain among the highest in Europe.

In 1993, Belgium completed its process of regionalization and became a federal state consisting of three regions: Brussels, Flanders and Wallonia. Each region was given substantial economic powers, including trade promotion, industrial development, research and environmental regulation.

2. Exchange Rate Policy

Since 1989, Belgian monetary policy basically shadows German interest rates closely in order to keep the Belgian Franc (BF) close to its central parity with the German Mark (DM) within the European Monetary System's Exchange Rate Mechanism (ERM). Since 1993, the BF has remained within two percent of its DM parity. The result has been low inflation (even below Germany's level) and a much-reduced interest rate premium over German bonds. It has also meant an appreciation of the BF against the weaker European currencies. Now that Belgium is a member of Euroland, the country will gradually shift from the use of the BF to the use of the euro as its currency by January 1, 2002. Most analysts think that the parities with the other euro members’ currencies will henceforth remain unchanged, and one euro will probably be worth BF 40. The definitive exchange rates will be established on January 1, 1999.

3. Structural Policies

Belgium is a very open economy, as witnessed by its high levels of exports and imports relative to GDP. Belgium generally discourages protectionism. The federal and some regional governments actively encourage foreign investment on a national treatment basis.

Tax Policies: Belgium's tax structure was substantially revised in 1989. The top marginal rate on wage and salary income is 55 percent. Corporations (including foreign-owned corporations) pay a standard income tax rate of 39 percent. Small companies pay a rate ranging from 29 to 37 percent. Branches and foreign offices pay income tax at a rate of 43 percent, or at a lower rate in accordance with the provisions contained in a double taxation treaty. Under the present bilateral treaty between Belgium and the United States, that rate is 39 percent.

Despite the reforms of the past years, the Belgian tax system is still characterized by relatively high rates and a fairly narrow base resulting from numerous exemptions. While indirect taxes as a share of total government revenues are lower than the EU average, personal income taxation and social security contributions are particularly heavy. Total taxes as a percent of GDP are the third highest among OECD countries. Taxes on income from capital are by comparison quite low; since October 1995, the tax rate on interest income is 15 percent, and the tax rate on dividends is 25 percent for residents. There is no tax on capital gains. Pharmaceutical manufacturers face a unique turnover tax of 4 percent, with indications that it may be increased further.

Belgium has instituted special corporate tax regimes for coordination centers, distribution centers and business service centers (including call centers) in recent years in order to attract foreign investment. These tax regimes provide for a "cost-plus" definition of income for intragroup activities and have proven very attractive to U.S. firms, but are now being targeted by the European Commission as constituting unfair competition with other EU member states.

Regulatory Policies: The only areas where price controls are effectively in place are energy, household leases and pharmaceuticals. With the exception of the latter, none of these has any serious impact on U.S. business in Belgium.

4. Debt Management Policies

Belgium is a member of the G-10 group of leading financial nations, and participates actively in the IMF, the World Bank, the EBRD and the Paris Club. Belgium is also a significant donor of development assistance. It closely follows development and debt issues, particularly in Africa.

Belgium is a net external creditor, thanks to the household sector's foreign assets, which exceed the external debts of the public and corporate sectors. Only about 10 percent of the Belgian Government's overall debt is owed to foreign creditors. Moody's top Aa1 rating for the country's bond issues in foreign currency reflects Belgium's integrated position in the EU, its significant improvements in fiscal and external balances over the past few years, its economic union with the financial powerhouse Luxembourg, and the reduction of its foreign currency debt. The government has no problems obtaining new loans on the local credit market. Because of the reform of monetary policy in 1991, as well as greater independence granted in 1993 to the National Bank of Belgium, direct financing in Belgian Francs by the central bank has become impossible.

5. Significant Barriers to U.S. Exports

From the inception of the EU's single market, Belgium has implemented most, but not all, trade and investment rules necessary to harmonize with the rules of the other EU member countries. Thus, the potential for U.S. exporters to take advantage of the vastly expanded EU market through investments or sales in Belgium has grown significantly. However, some barriers to services and commodity trade still exist:

Telecommunications: The federal government is gradually opening up the previously monopolistic telecommunications sector. Although Belgium fully liberalized its telecommunications services in accordance with the EU directive on January 1, 1998, some barriers to entry still persist. New entrants to the Belgian market complain that current legislation is not transparent, that the interconnect charges they pay to Belgacom (the former monopolist -- 51 percent government-owned) remain high and that Belgium will delay implementing number portability until the year 2000, the maximum delay allowed by the European Commission.

Ecotaxes: The government has adopted a series of ecotaxes in order to redirect consumer buying patterns towards materials seen as environmentally less damaging. These taxes may raise costs for some U.S. exporters, since U.S. companies selling into the Belgian market must adapt worldwide products to various EU member states' environmental standards.

Retail Service Sector: Some U.S. retailers have experienced considerable difficulties in obtaining permits for outlets in Belgium. Current legislation is designed to protect small shopkeepers, and its application is not transparent. Belgian retailers suffer from the same restrictions, but their existing sites give them strong market share and power in local markets.

Pharmaceutical Issues: Representatives of the pharmaceutical industry report that regulatory complexity, administrative delays and onerous taxation place significant burdens on the sector. As indicated in section three, pharmaceutical products are under strict price controls in Belgium. Furthermore, since 1993, procedures to approve new life-saving medicines for reimbursement by the national health care system have slowed down steadily, to an average of 410 days, according to the local manufacturers group of pharmaceutical companies. The legal maximum for issuance of such approvals remains 90 days. A four percent turnover tax is charged on all sales of pharmaceutical products. There is a price freeze on reimbursable products and a required price reduction on drugs on the market for 15 years. Future proposals suggest additional targeting of the pharmaceutical sector for taxation and price controls.

Public Procurement: In January 1996, the government implemented a new law on government procurement to bring Belgian legislation into conformity with EU directives. The revision has incorporated some of the onerous provisions of EU legislation, while improving certain aspects of government procurement at the various governmental levels in Belgium. Belgian public procurement still manifests instances of poor public notification and procedural enforcement, requirements for offsets in military procurement and nontransparency in all stages of the procurement process.

Broadcasting and Motion Pictures: Belgium voted against the EU broadcasting directive (which requires a high percentage of European programs "where practical") because its provisions were not, in the country's view, strong enough to protect the film industry in Flanders. The Flemish (Dutch-speaking) region and the Francophone community of Belgium have local content broadcasting requirements for private television stations operating in those areas. The EU has taken the Walloon and Flemish communities to the European Court of Justice concerning these requirements. TNT has experienced considerable problems in arranging distribution of its signal on Belgian cable, while NBC and Viacom, which have a majority interest in the British-based TV 4 channel, face similar problems with broadcasting authorities in Flanders.

6. Export Subsidies Policies

There are no direct export subsidies offered by the government to industrial and commercial entities in the country, but the government (both at the federal and the regional level) does conduct an active program of trade promotion, including subsidies for participation in foreign trade fairs and the compilation of market research reports. In addition, exporters are eligible for a reduction in social security contributions by employers and benefit from generous rules for cyclical layoffs. The latter programs -- known as Maribel -- come close to the definition of an export subsidy, and have already been denounced as such by the European Commission. All of these programs are offered to both domestic and foreign-owned exporters. Also, the United States has raised with the Belgian Government and the EU Commission concerns over subsidies via an exchange rate program to Belgian firms producing components for Airbus.

7. Protection of U.S. Intellectual Property

Belgium is party to the major intellectual property agreements, including the Paris, Berne and Universal Copyright Conventions, and the Patent Cooperation Treaty. Nevertheless, according to industry sources, an estimated 20 percent of Belgium's video cassette and compact disc markets are composed of pirated products, causing a $200 million loss to the producers. For software, the share of pirated copies has dropped from 48 to 39 percent in one year, still representing a loss of $570 million to the industry.

Copyright: On June 30, 1994, the Belgian Senate gave its final approval to the revised Belgian Copyright Law. National treatment standards were introduced in the blank tape levy provisions of the new law. Problems regarding first fixation and non-assignability were also solved. The final law states that authors will receive national treatment, and allows for sufficient maneuverability in neighboring rights. However, if Belgian right holders benefit from less generous protection in a foreign country, the principle of reciprocity applies to the citizens of that country. This is the case for the U.S., which does not grant protection of neighboring rights to Belgian artists and performers, nor to Belgian producers of records and movies. As a consequence, U.S. citizens in Belgium are subject to the same restrictions.

Patents: A Belgian patent can be obtained for a maximum period of twenty years and is issued only after the performance of a novelty examination.

Trademarks: The Benelux Convention on Trademarks established a joint process for the registration of trademarks for Belgium, Luxembourg and the Netherlands. Product trademarks are available from the Benelux Trademark Office in The Hague. This trademark protection is valid for ten years, renewable for successive ten-year periods. The Benelux Office of Designs and Models will grant registration of industrial designs for 50 years of protection. International deposit of industrial designs under the auspices of the World Intellectual Property Organization (WIPO) is also available.

8. Worker Rights

a. The Right of Association: Under the Belgian Constitution, workers have the right to associate freely. This includes freedom to organize and join unions of their own choosing. The government does not hamper such activities, and Belgian workers in fact fully and freely exercise their right of association. About 60 percent of Belgian workers are members of labor unions. This number includes employed, unemployed and workers on early pension. Unions are independent of the government, but have important links with major political parties. Unions have the right to strike and strikes by civil servants and workers in "essential" services are tolerated. Teachers, nurses, railway workers, air controllers and Sabena personnel have conducted strikes in recent years without government intimidation. Despite government protests over wildcat strikes by air traffic controllers, no strikers were prosecuted. Also, Belgian unions are free to form or join federations or confederations and are free to affiliate with international labor bodies.

b. The Right to Organize and Bargain Collectively: The right to organize and bargain collectively is recognized, protected and exercised freely. Every other year, the Belgian business federation and unions negotiate a nationwide collective bargaining agreement covering 2.4 million private-sector workers, which establishes the framework for negotiations at plants and branches. Public sector workers also negotiate collective bargaining agreements. Collective bargaining agreements apply equally to union and non-union members, and over 90 percent of Belgian workers are covered by collective bargaining agreements. Under legislation in force, wage increases are limited to a nominal 6.1 percent for the 1997-98 period. For the 1999-2000 period, 5.9 percent (nominally) has been proposed. The law prohibits discrimination against organizers and members of unions, and protects against termination of contracts of members of workers' councils, members of health and safety committees, and shop stewards. Effective mechanisms such as the labor courts exist for adjudicating disputes between labor and management. There are no export processing zones.

c. Prohibition of Forced and Compulsory Labor: Forced or compulsory labor is illegal and does not occur. Domestic workers and all other workers have the same rights as non-domestic workers. The government enforces laws against those who seek to employ undocumented foreign workers.

d. Minimum Age for Employment of Children: The minimum age for employment of children is 15, but schooling is compulsory until the age of 18. Youth between the ages of 15 and 18 may participate in part-time work/part-time study programs and may work full-time during school vacations. The labor courts effectively monitor compliance with national laws and standards. There are no industries where any significant child labor exists.

e. Acceptable Conditions of Work: The current monthly national minimum wage rate for workers over 21 is BF43,343 ($1,265); 18-year-olds can be paid 82 percent of the minimum, 19-year-olds 88 percent and 20-year-olds 94 percent. The Ministry of Labor effectively enforces laws regarding minimum wages, overtime and worker safety. By law, the standard workweek cannot exceed 40 hours and must include at least one 24-hour rest period. Comprehensive provisions for worker safety are mandated by law. Collective bargaining agreements can supplement these laws.

f. Rights in Sectors with U.S. Investment: U.S. capital is invested in many sectors in Belgium. Worker rights in these sectors do not differ from those in other areas.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 1997

(Millions of U.S. Dollars)

Category		Amount
Petroleum		237
Total Manufacturing		8,788
Food & Kindred Products	636	
Chemicals & Allied Products	5,857	
Primary & Fabricated Metals	184	
Industrial Machinery and Equipment	485	
Electric & Electronic Equipment	312	
Transportation Equipment	(1)	
Other Manufacturing	(1)	
Wholesale Trade		2,102
Banking		252
Finance/Insurance/Real Estate		4,066
Services		1,364
Other Industries		594
TOTAL ALL INDUSTRIES		17,403

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.